**Washington State Office of
Financial Management**

Roadmap for Financial and Administrative Policies, Processes, and Systems

Enterprise Service Delivery Model

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Table of Contents

■

Executive Summary

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The *Roadmap* for Financial and Administrative Policies, Processes, and Systems (*Roadmap*) is an enterprise effort offering great potential for a more economical government, better information, better results, and better business relationships. Achieving this potential will require a major transformation of financial and administrative processes. Experience in other states demonstrates that such enterprise programs must be supported by strong organizational infrastructure: governance, service delivery, and funding. This paper describes decisions the *Roadmap* sponsors need to make about this infrastructure including:

- Whether the current governance structure is suitable for supporting the *Roadmap* program or should be changed.

- Whether the current service delivery structure will effectively support future enterprise solutions or should be changed.

- Whether the initial *Roadmap* development program should be paid for with current appropriations or with debt financing.

- Whether there should be a chargeback approach for agencies to cover ongoing *Roadmap* costs.

Addressing these issues will require a careful balancing of Washington state's tradition of agency autonomy with the emergence of a more enterprise-wide focus.

A. Governance

Enterprise solutions require enterprise governance, otherwise policies, priorities, processes, and standards will fragment and drift apart.

Roadmap sponsors recognize the need for an effective governance mechanism. A general agreement exists about the need to involve the directors of the four central services agencies – Office of Financial Management (OFM), Department of General Administration (GA), Department of Information Services (DIS), and Department of Personnel (DOP) – and to provide for line department input.

Sponsors have identified good governance examples such as WorkFirst, which is headed by a subcabinet of agency directors, and the Unified Business Identifier Board, which works well in resolving policy issues.

While the *Roadmap* currently has a governance structure, the question has been raised as to whether the Executive Sponsor's Committee membership should be

expanded. To aid in the sponsors' decision about this, three committee alternatives have been identified:

- **Current membership**. Members now include the directors of OFM, GA, DOP, and DIS.

- **Current membership plus line agency directors.** This would add several directors from a cross-section of agencies.

- **Current membership plus line agency directors and a Governor's Office representative**.

The current Executive Sponsor's Committee has the basic authority to achieve enterprise results and the ability to resolve issues in a timely manner. However, the addition of line department directors and a Governor's Office representative could strengthen the committee's authority and ability to achieve agency buy-in.

In all alternatives, experience has shown it necessary to have strong support from the governor.

B. Service Delivery

Service delivery deals with which agencies will support enterprise-wide processes and systems. Currently, service delivery is divided among OFM, DOP, and GA.

There are a number of key challenges that need to be addressed with service delivery including:

- Enterprise solutions require an enterprise service delivery approach – to achieve a "single provider" view and contain service delivery costs.

- Enterprise solutions must provide responsive customer service – otherwise shadow systems will re-emerge.

- Enterprise solutions must be affordable and available to all enterprise members – small, medium, or large.

To address these challenges, the *Roadmap* team has identified three service delivery alternatives, as follows:

- **Status quo**. Currently, business processes and systems are supported by three different central services agencies. OFM supports finance and budgeting, DOP supports human resources and payroll, and GA supports purchasing.

- **Combined support**. Some or all business processes and systems would be combined into a single agency.

- **Brokered.** A single agency would be the organizer and clearinghouse for enterprise services and systems to ensure standardization. However, the actual processes or systems could be delivered by different agencies.

The Status Quo service delivery approach has served the state reasonably well to this point. However, with the implementation of *Roadmap* enterprise processes and solutions, it will be more difficult to deliver improvements, contain costs, provide customer service, and optimize staff expertise. It will be a particular problem to support Enterprise Resource Planning (ERP) software with this approach. The Combined Support alternative offers the most effective approach to support enterprise solutions. The Brokered approach could improve the service delivery structure but not as effectively as Combined Support.

C. Funding

Although offering the potential for significant returns, the *Roadmap* will require substantial investments. The *Roadmap* funding strategy needs to address the following challenges:

- Tight budgets.

- Reduced staffing capacity in the agency finance and administrative offices.

- Need for multiyear funding.

- Multiple agencies and multiple fund sources.

Roadmap leaders concur that there should be chargeback mechanisms to ensure all agencies and funds provide their fair share of funding. However, some prefer using current appropriations for *Roadmap* initiatives while others believe that large capital items should be funded through debt financing.

There are two types of funding models: initial investment and ongoing cost recovery. Initial investment deals with whether current revenue or borrowing is used. Ongoing cost recovery deals with whether direct appropriations or a chargeback process is used.

Initial investment models include the following:

- **Current appropriations** – initiatives are funded with appropriations from the current biennium (no debt service required).

- **Debt financing** – the state borrows funds using certificates of participation or the state's general obligation bond authority (debt service required).

- **Vendor financing** – borrowing funds from software or system integration companies (debt service required).

Ongoing cost recovery models include the following:

- **Direct appropriations** – ongoing costs (and debt service if required) are provided by appropriations to an agency to fund an initiative.

- **Chargeback** – ongoing costs (and debt service if required) are recovered through assessments, charges, and fees to agencies and associated fund sources.

I. Background and Approach

The *Roadmap* offers great potential for a more economical government, better information, better results, and better customer and business relationships. It presents a multiyear, multi-agency program to achieve these benefits. Delivering and supporting the *Roadmap* program will require strong organizational infrastructure: governance, service delivery, and funding. This report presents alternatives for this infrastructure. These alternatives will support decisions that need to be made by project sponsors including:

- Whether the current governance structure is suitable for supporting the *Roadmap* program or should be changed.

- Whether the current service delivery structure will effectively support future enterprise solutions or should be changed.

- Whether the initial *Roadmap* development program should be paid for with current appropriations or with debt financing.

- Whether there should be a chargeback approach for agencies to cover *Roadmap* costs.

The approach to developing this report included researching best practices in industry literature, interviewing *Roadmap* leadership, drawing on Dye Management Group, Inc. intellectual capital, and analysis.

II. Enterprise Governance

A. The Challenge

The following are some of the key challenges that need to be addressed with governance:

- **Enterprise solutions require enterprise governance** – otherwise policies, priorities, processes, and standards will fragment and drift apart.

- **Need for top-level sponsorship**. Enterprise project experience elsewhere has demonstrated that support from the governor, senior department management, and the legislature is necessary to obtain commitment to change and the necessary project resources.

- **Fragmented policies and processes**. Multiple agencies set financial and administrative policy direction. Purchasing authority is shared between OFM, DIS, GA, and to a lesser extent, other agencies such as the State Printer. Authority for enterprise financial and administrative systems is shared between OFM, DIS, and the Information Services Board. In addition to policies, financial and administrative processes for similar activities are very different in

central and in line departments. Varying policies and processes results in unnecessarily high costs and complexity.

- **Enterprise solutions cross agency boundaries**. Typically, contemporary business process improvements focus on end-to-end business processes. For example, the *Roadmap* had identified opportunities in the "procure to pay" business cycle. Processes and systems supporting this business cycle are in the OFM, DOP, and DIS, as well as in line agencies. There is redundancy and overlap among the processes and systems. To streamline this business cycle, the state needs to consider how to eliminate some of this redundancy.

- **Need for effective, timely decision making.** Experience with enterprise projects elsewhere indicates that policy decisions must be made quickly and decisively to stay on schedule.

- **Agency buy-in.** Agencies must support enterprise solutions to be motivated to implement required changes and achieve enterprise benefits.

- **Balancing enterprise and agency-unique interests.** There needs to be a structure to achieve commitment to enterprise solutions for common processes and to assess whether agencies have unique needs that should be addressed with non-enterprise solutions.

B. Leadership Perspectives

Roadmap sponsors and members of the leadership team have provided a range of perspectives on governance. The following are some views of the *Roadmap* leaders:

- The *Roadmap* should continue to be sponsored by all four central service agencies.

- A "board of directors" approach is appealing, with representation not only from top management at the central agencies but also from the line departments that control most of the state budget.

- WorkFirst, which was directed by a subcabinet, had dedicated resources and a strong emphasis on performance measurement.

- The Unified Business Identifier Board, which had statutory authorization and a mandate from the governor that brought the Departments of Licensing, Employment Security, Revenue, and Labor and Industries together. It was an excellent way to improve communications, avoid misconceptions, and resolve policy and technical issues concerning the Master Licensing System and associated processes. Consensus and support were the decision-making approaches.
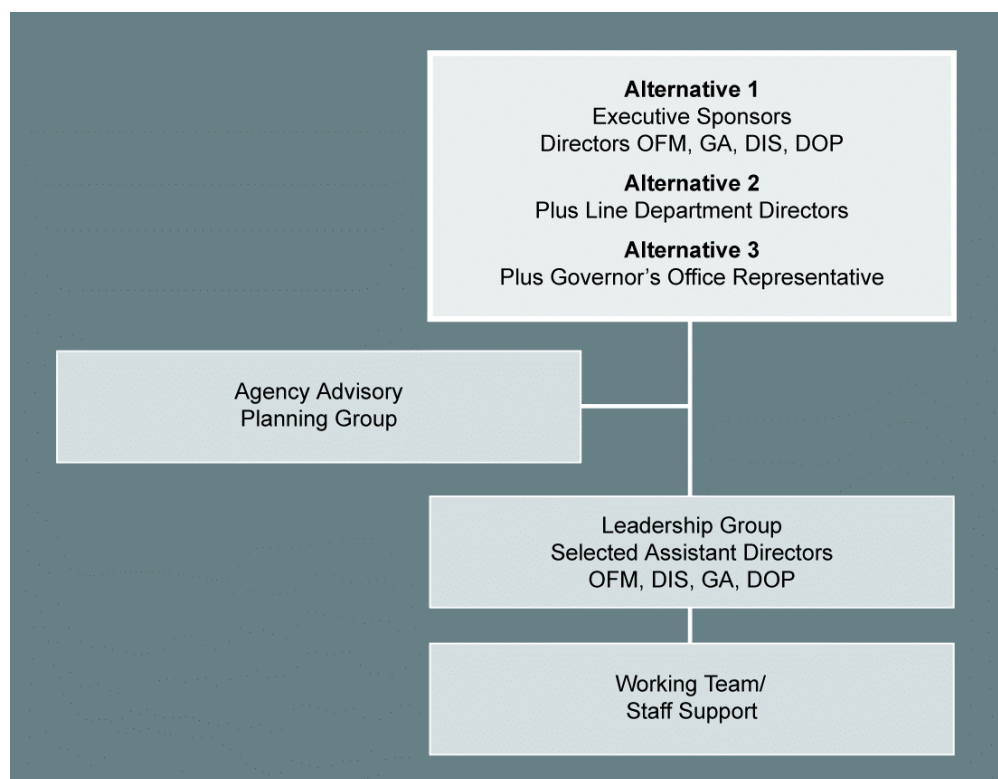
C. Governance Alternatives

The *Roadmap* sponsors need to decide whether the current governance structure is adequate as the program moves forward. For the sponsors' consideration, the *Roadmap* team has outlined three governance alternatives focusing on the Executive Sponsor's Committee membership. In all cases, it is assumed that there will be strong support from the governor if the program is to be successful. The alternatives are as follows:

- Current membership. Members now include the directors of OFM, GA, DOP, and DIS.

- Current membership plus line agency directors. This would add several directors from a cross-section of agencies.

- Current membership plus line agency directors and a Governor's Office representative.

These Executive Sponsor's Committee alternatives are reflected in Exhibit II-1.

Exhibit II-1: *Roadmap* Governance Alternatives

Exhibit II-2: Governance Alternative Comparison

	Current (Four Central Sponsors)	Plus Line Department Directors	Plus Governor's Office Representative
Authority to Achieve Enterprise Results	◑	◕	○
Timely Issue Resolution	○	◕	◕
Agency Buy-in	◑	◕	○

○ Factor is present
● Factor is not present

Following is a discussion of how each Executive Sponsor's Committee alternative compares against the different factors.

1. Current Membership

a. Authority to achieve enterprise results

The current Executive Sponsor's Committee has a great deal of authority to achieve enterprise results because of the authorities of the central service agencies. These include OFM's ability to approve new agency financial systems and budgets for these systems. DIS, supporting the Information Services Board, approves financial and administrative system acquisitions and designates common processes, data, and technologies, which then must adhere to enterprise standards. GA sets purchasing policy. DOP sets personnel policy.

b. Timely issue resolution

Having a small membership makes it easier to have members present to resolve issues quickly.

c. Agency buy-in

Because of the governor's support, the fact that the OFM director is typically seen as the governor's representative, and the Advisory Committee, there will be some agency buy-in to the *Roadmap*.

2. Current Plus Line Department Directors

a. Authority to achieve enterprise results

The central agency authorities described above will still be present in this alternative. However, the addition of line department representatives increases the reach of authority. Department directors have visibility on *Roadmap* implementation in their departments and can be specifically accountable for achieving benefits.

b. Timely issue resolution

This somewhat larger membership than currently exists may make it more difficult to get members together to resolve issues. Department directors also may bring up issues that would not otherwise be raised, generally requiring more time to address issues.

c. Agency buy-in

Clearly, having line department directors on the committee would strengthen agency buy-in. They can help achieve the commitment of their department staff and help resolve issues that will make it easier for their departments to accept change.

3. Current Plus Line Department Directors and Governor's Office Representative

a. Authority to achieve enterprise results

This alternative has all of the benefits of the previous two but with added authority from having a governor's representative.

b. Timely issue resolution

This would add yet one more hard-to-schedule person to the committee. However, this governor's representative could help broker timely issue resolution. Further, because this person would not be from one of the four

central service agencies, he/she may be seen as more neutral in resolving disputes.

c.   **Agency buy-in**

Here again, being a neutral party could be helpful in encouraging agencies to accept enterprise changes.

III. Enterprise Service Delivery

The *Roadmap* sponsors need to decide whether the current service delivery structure will be adequate for the proposed *Roadmap* enterprise policies, processes, and systems. This section discusses challenges, leadership perspectives, and alternatives for service delivery.

A. The Challenge

- **Enterprise solutions require an enterprise service delivery approach** – to achieve a "single provider" view and contain service delivery costs.

  - **Fragmented systems and support.** Washington financial and administrative functions are dispersed. Scattered throughout state government, there are at least 270 software applications and nearly 20,000 desktop systems supporting these functions. Central systems service delivery is divided among OFM, DOP, GA, the State Treasurer's Office and the Department of Retirement Systems. This fragmented approach to systems and support results in unnecessarily high costs and complexity.

  - **Need for consolidation.** One of the reasons ERP efforts in the 1990s often failed to deliver promised benefits was that the organizational units supporting finance and administrative functions remained decentralized. To remedy this, the more recent model has been to consolidate these functions and share them throughout the organization. Because of this shift, significant benefits have been achieved in many organizations.

  - **Need to optimize expertise.** Contemporary financial and administrative systems and processes are complex. There are limited resources for the state to attract, train, and keep knowledgeable personnel. Many organizations recognize this and are consolidating personnel into "centers of excellence" where this expertise can be concentrated.

- **Enterprise solutions must provide responsive customer service** – otherwise shadow solutions will re-emerge.

  - **Concerns about customer service.** One of the reasons agencies have developed their own financial and administrative systems is because of

concern about service and the desire to control these systems. This has contributed to the proliferation of systems. Agencies are concerned about whether enterprise solutions will be as responsive as their own systems and processes. They also want to ensure that their unique needs are addressed.

- **Enterprise solutions must be affordable and available to all of the enterprise members** – small, medium, or large.

  - **Haves and have-nots**. Some agencies have been able to move ahead with improvements in processes and systems because they had dedicated fund sources with sufficient balances or were of sufficient size to cover the costs. Other agencies have not had the ability to make similar improvements because of budget constraints or their limited size. As a result, these agencies have not been able to implement modern processes and systems.

B. Leadership Perspectives

Roadmap sponsors and members of the leadership team have provided a range of perspectives on governance. The following are some views expressed by the *Roadmap* leaders:

- Service delivery should be centralized for providing enterprise service. However, it should be informed by the customers.

- Organization is not the key issue. Consolidation of the four central agency services may be a possibility in the future but should not be considered until steps are taken to improve coordination between the agencies.

- Another view favored a "federated approach" in which a number of agencies are allowed to run their own businesses but must adhere to standards for enterprise information.

- It was suggested that there was wisdom in consolidating the systems functions now supported by the DOP Human Resources Information Systems Division with those of the OFM Statewide Financial Systems. Those functions are more financial in orientation.

- Central services agencies should think and act like a single service provider in terms of policy, process, and systems.

- It is important to provide incentives for agencies to participate.

- In developing the governance and service delivery approaches, it important to consider the barriers and competitors for enterprise service delivery.

The *Roadmap* sponsors identified the following as examples of good service delivery:

- The Digital Academy, which features tangible products, facilitated processes, informed dialogues, and discrete projects with limited timelines.

- The San Diego Data Processing Authority, which set clear standards for multiple governmental entities for criminal justice information systems.

- The Amazon.com model, which provides a structure and incentives for different businesses to work together. It is "Lego-like" with a core central piece and strong expectations about data. This makes it possible to locate and purchase a book from a local Olympia bookstore through Amazon.com.

- The GA and Department of Social and Health Services agreement, which shares responsibilities in translation services, leveraging the respective expertise of each agency.

C. Service Delivery Alternatives

The *Roadmap* team has outlined three different alternatives to provide services including:

- **Status quo**. Currently, business processes and systems are supported by three different central services agencies. OFM supports finance and budgeting, DOP supports human resources and payroll, and GA supports purchasing.

- **Combined support**. Some or all business processes or systems would be combined into a single agency.

- **Brokered**. A single agency would be the organizer and clearinghouse for services to help ensure standardization, but the actual processes or systems could be delivered by different agencies. This is similar to the Amazon.com approach described above.

Exhibit III-1 compares the service delivery alternatives on a number of different dimensions:

- Delivering enterprise improvements (supporting end-to-end processes).

- Containing costs.

- Customer service (including offering a single provider view).

- Optimizing expertise.

In addition, Exhibit III-2 compares the ability of the alternatives to provide different support function for ERP systems.

Following is a description of how each alternative compares.

Exhibit III-1: Service Delivery Alternative Comparison

	Status Quo Business Processes and Applications Supported by OFM, DOP, and GA	Combined Support Some or all of Business Applications Support	Brokered
Delivering Enterprise Improvements – End-to-end processes	◐	○	◕
Containing Costs	◐	◕	◐
Customer Service – Single provider view	◐	○	◐
Optimizing Expertise	◐	○	◐

○ Factor is present
● Factor is not present

Exhibit III-2: Ability to Support ERP Software

	Status Quo	Combined Support	Brokered
System Configuration	◐	○	◐
Customer Support – Training – Help desk – Problem tracking	◐	○	◐
Production Change Control	◐	○	◐
Business Value Pursuit – Portfolio management – Consultants – Requirement management	◐	○	◐
Vendor Management	◐	○	◐

○ Factor is present
● Factor is not present

1. Status Quo

The status quo approach has served the state reasonably well up to this point. However, with implementation of enterprise-wide improvements, service delivery becomes increasingly problematic.

With support by three different agencies, it is difficult to deliver enterprise improvements for end-to-end processes and systems. Containing costs also is more challenging given that each agency must maintain staff who understand multiple processes and systems. Customer service is compromised as there are multiple organizations with which an agency must deal for the same processes.

It also will be difficult to support ERP software as depicted in Exhibit III-2. This is the case in all ERP support areas: system configuration, customer support, production change control, business value pursuit, and vendor management.

2. Combined Support

Combining support offers the best promise for delivering enterprise improvements because a single agency, or at least fewer agencies, can focus on end-to-end process and system improvements. Costs can be better contained with less staff redundancy. There can be a single provider view that will enhance customer service. The state can optimize expertise by consolidating knowledgeable staff into a "center of excellence" that will be trained on enterprise best practices and systems.

This is by far the best alternative for providing ERP support as indicated in Exhibit III-2.

3. Brokered

The brokered approach represents middle ground for enterprise service delivery. It does not offer much change from the status quo for delivering enterprise improvements and containing costs. However, it can set standards for enterprise processes and systems. By providing a clearinghouse for enterprise services, it can provide more of a single provider view. In addition, it can help optimize expertise by designating experts in different agencies, ensuring training of these experts, and providing agencies a single point of access to them.

IV. Funding

Although offering significant returns, implementing the *Roadmap* program will require significant investments. This section discusses perspectives on and alternatives for this funding.

A. The Problem

Following are some of the issues that need to be addressed in developing a funding approach:

- **Tight budgets** – the state's current budget situation continues to make future investments difficult.

- **Limited staffing capacity in agency finance, HR, purchasing and administration offices** – ongoing staffing reductions, lack of training, and retirement of senior staff continue to erode the capacity of agencies to participate in and support change initiatives.

- **Need for multiyear funding** – the *Roadmap* will be implemented over a number years and will measure results over time; consequently, funding must be provided for multiple years.

- **Multiple agencies and multiple fund sources** – agencies and programs with varying fund sources will benefit from the *Roadmap* initiatives; the funding strategy should reflect this.

B. Leadership Perspectives

Roadmap leadership has provided some insight on funding as described below.

Some leaders believe that the only way to fund significant costs will be in using some type of debt financing such as certificates of participation or general obligation funding. Others believe that funding should be from current appropriations.

One view was that there should be a self-sustaining revolving fund. There would be borrowed capital with a payback period, plus ongoing operational costs that are covered with fees charged to agencies. This would be similar to what DIS uses to fund equipment. It is not desirable to keep going back to the Washington State Legislature for capital.

There has been general agreement that participating agencies and funds should contribute equitably to funding through chargeback or other methods. One leader called this "pay as you play."

It might make sense to have agencies pay with a combination of a flat fee and a per-transaction fee.

Any billing mechanism should not cost more to operate than the revenue it collects.

There is concern that the administration of fee structures and appropriation for central services is a lot of work for central agencies and the budget staff.

One way of funding is to have a given agency with resources implement a component of the *Roadmap* and then have the state adapt it for use by other agencies.

C. Alternatives

Two types of funding models are presented: initial investment models and ongoing cost recovery models. Initial investment models deal with whether projects are funded with current appropriations or use external financing. Ongoing cost recovery models deal with whether or not there is a method to charge agencies for the costs incurred.

1. Initial Investment Models

Four alternative initial investment models are discussed: current appropriations, debt financing, vendor financing, and project benefit financing. The pros and cons of these alternatives are presented in Exhibit IV-1 and are described in the narrative that follows.

Exhibit IV-1: Comparison of Initial Investment Models

	Pros	Cons
Current appropriations	• Lowest development cost. • Simplest administratively.	• Unlikely when budget is tight. • Potential delay of benefits.
Debt financing	• Feasible when budget is tight. • Immediate benefits. • Spreads cost over life of benefits.	• More costly to develop. • Administratively complex.

	Pros	Cons
Vendor financing	• Feasible when budget is tight. • Not a state source. • Immediate benefits.	• Extremely short payback. • More costly to develop. • Total costs are generally higher. • May limit competition by excluding vendors not willing to participate.
Project benefit financing	• Focuses on end benefit. • Avoids costs incurred by the state. • Avoids direct costs by the state.	• Not feasible for all alternatives. • Risk of not realizing benefits. • Can be expensive. • Administratively complex.

a. Current appropriations

This is where initiatives are funded with appropriations and cash from the current biennium.

(1) Pros

This would result in the lowest upfront cost for implementing initiatives, as there are no debt service charges. It also is the simplest administratively.

(2) Cons

Significant initiatives may not be funded when budgets are tight. Any associated delay in funding could delay benefits that could save the state money in the long term.

b. Debt financing

The state could borrow using certificates of participation or the state's general obligation bond authority. Certificates of participation were used for funding the Human Resource Information Management System project.

(1) Pros

This may be the only way that significant software initiatives may be funded in the current, tight budget environment. It may, therefore, allow the state to move forward sooner with initiatives than it would if it used current appropriations. That way the state can start receiving benefits, saving money in the long term. It also is consistent with good financial management principles by spreading the cost over the life of the benefits received.

(2) Cons

Implementation costs will be higher because of interest charges, and it is more complex administratively because of debt service requirements.

c. Vendor financing

Software vendors or system integration consultants are often willing to finance initiatives in which they participate.

(1) Pros

This is an alternative to current appropriations in a tight budget environment. It also is a source of revenue that does not come from the state and that may be popular. It would allow the state to move forward with initiatives that might be otherwise delayed.

(2) Cons

The payback period is generally very short, typically three to four years. This makes it only marginally better than current appropriations for spreading out payments. There are interest costs for financing. In addition, this alternative complicates the accountability relationship with the vendor.

d. Project benefit financing

This is an arrangement in which costs of the initiative are paid for with cost savings or revenue increases achieved from the initiative. For example, an initiative that promised additional revenue may be implemented by an outside vendor without additional cost to the state, in return for a share of the additional revenue generated. The Province of British Columbia is engaged in this sort of arrangement for its revenue system.

(1) Pros

This has appeal because the state avoids having to pay upfront for initiatives. It also focuses on actually achieving the benefit that justified the investment in the first place.

(2) Cons

This approach is only feasible for selected initiatives that can demonstrate clear revenue-generation or cost-saving potential. If benefits are not achieved as forecast, costs will not be covered. It also can be expensive. In return for agreeing to an uncertain revenue stream, vendors may exact a high percentage of the take. In addition, it is administratively complex.

2. Ongoing Cost Recovery Models

Two ongoing cost recovery alternatives are presented: direct appropriations and chargeback. The pros and cons of these alternatives are presented in Exhibit IV-2 below and are described in the narrative that follows.

Exhibit IV-2: Comparison of Ongoing Cost Recovery Models

	Pros	Cons
Direct appropriations	• Certainty as to budget level. • Simplest administratively. • Supports enterprise goals.	• "Fair share" issue for agencies and funds. • Funding difficulty.
Chargeback	• Charges benefiting agencies and funds. • Potentially easier to obtain funding.	• More administratively complex.

a. Direct appropriations

In this approach, there are appropriations to a given agency to fund an initiative, with no attempt to charge this back to participating agencies.

(1) Pros

This provides certainty as to budget levels at the time appropriations are made. It is the simplest approach administratively, reducing administrative and budget workload involved with developing fee

structures, negotiating them with agencies, and ensuring each agency receives an equitable appropriation to pay for its share. To the extent that some services and systems are mandatory, this may support enterprise goals such as reducing the number of agency financial systems and nonfinancial goals of improving the quality of enterprise-wide information.

(2) Cons

Without a systematic way of assessing different charges to agencies and funds for initiatives, agencies will not pay their "fair share." It may be difficult during tight budget times to obtain funding.

b. Chargeback

This approach recovers the costs of initiatives through assessments to agencies and associated fund sources. There are a variety of approaches to this. The cost recovery approach can be fixed and assessed at the start of a fiscal period or it can vary based upon usage.

(1) Pros

This may be the fairest approach because it charges benefiting agencies and fund sources. It may be easier to obtain funding because multiple agencies are assessed rather than requiring a single large appropriation.

(2) Cons

This approach is more administratively complex.